

HOW THE REPUBLICAN TAX BILL IS HARMFUL TO WOMEN AND THEIR FAMILIES

The Republican tax bill — which was reported out of the Ways and Means Committee on a party-line vote of 22 to 16 on June 13 and will be considered by the House during the week of June 23 — contains several provisions that would be harmful to women and their families. Following is an overview of some of these harmful provisions.

The GOP Tax Bill Still Cuts the Child Tax Credit for Two Million Families with Child Care Expenses

The GOP tax bill, as reported out of the Ways and Means Committee on a party-line vote on June 13, would have cut the child tax credit for six million families with child care expenses.

Late on the afternoon of Wednesday, June 18, Chairman Archer issued a press release stating that he intended to make changes in the reported GOP tax bill in order to “eliminate any interaction between the \$500 per child credit and the dependent care tax credit for families that make \$50,000 a year or less.”

Congressional Democrats welcome this proposed change by Chairman Archer — but argue that Chairman Archer should go further and eliminate any interaction between the \$500 per child credit and the dependent care (child care) tax credit, as the Democratic substitute does.

The GOP tax bill, as modified on June 18, still cuts the child tax credit for two million families with child care expenses — the two million working families with incomes over \$50,000 who use the child care credit.

For example, under the modified GOP bill, a two-earner family in which the husband makes \$26,000 and the wife makes \$25,000 (for a total family income of \$51,000) would still lose a significant portion of their \$500-per-child credit.

The GOP tax bill, as reported by committee, would have actually singled out and penalized 6 million families who pay for child care and given them less of a tax cut. Specifically, the GOP bill, as reported, contained a provision that would have reduced a family’s \$500-per-child tax credit by 50 cents for each dollar the family takes in the child care tax credit, beginning in 2002. The bill as modified now applies this provision to the two million

families making more than \$50,000.

Under current law, families can take a tax credit for certain child care expenses. Specifically, families can deduct from 20 percent to 30 percent of their child care expenses (up to a certain ceiling) each year, depending on their income.

At the present time, 70 percent of mothers are in the workforce -- trying to help their families pay the monthly bills. Hence, these working families are required to incur child care expenses.

This GOP bill, as reported by committee, took the outrageous step of actually penalizing working women for joining the workforce in order to help their families and taking a tax credit for their necessary child care expenses. The GOP bill, as modified, still penalizes working women in families making over \$50,000.

Supposedly, the \$500-per-child tax credit in the GOP bill is designed to help hard-working families raise their children. And yet, paradoxically, instead of helping families pay for such child-raising expenses as child care, the GOP bill, as reported, would have actually reduced or eliminated this \$500-per-child credit for all those families with child care expenses.

The changes in the GOP bill announced by Chairman Archer on June 18 would only protect families making \$50,000 or less from the punitive provisions penalizing families for using the child care tax credit.

Therefore, under the GOP bill as revised by Chairman Archer on June 18, a family with two working parents making \$51,000 who pay for child care for their two children would still lose \$480 of their \$1000 child tax credit -- despite Chairman Archer's softening of the original bill.

Furthermore, the GOP bill continues to have a provision unamended by Chairman Archer on June 18 that penalizes families using the child care tax credit, by phasing out the child care tax credit entirely for families at higher-income levels.

The GOP Tax Bill Denies the Child Tax Credit Completely to Four Million Children in Working Families Receiving EITC

A second provision in the GOP tax bill that will be harmful to women and their families is a provision providing that the \$500-per-child tax credit be figured only after the Earned Income Tax Credit (EITC) is taken against a family's tax bill.

The nonpartisan Center on Budget and Policy Priorities has estimated that this GOP

provision will deny the \$500-per-child tax credit to 4 million children in lower-middle-income households.

The families impacted by this punitive GOP provision are hard-pressed working families who are scrambling to pay the bills. This GOP provision particularly impacts women -- because many of these families include working mothers, either as heads of household or as part of a two-earner family.

The reason that this GOP provision has such an impact is that millions of families in the \$20,000 to \$30,000 income range earn enough money to owe income tax before the EITC is calculated -- but have little or no income tax obligation remaining after the EITC is calculated. If the child credit is figured before the EITC is calculated, these families qualify for the child credit. If the child credit is figured after a family's EITC is taken, these families will no longer have an income tax liability and will consequently be ineligible for the child credit.

For example, a family of four with two children and \$24,000 of income would receive no child credit under the GOP plan. Under the Democratic alternative tax bill, this family would get \$1,000 — just as much as a family earning twice as much.

This damaging provision — penalizing families receiving EITC — was added to the GOP tax bill just this year. Under previous Republican Congressional tax bills, including the tax bill Congress passed in 1995 and the tax bill Senate Majority Leader Lott introduced in January 1997 (S. 2), the child tax credit was figured before the EITC is figured. By adding this provision, House Republicans are taking a step backward — denying the child tax credit to millions of hard-working American families.

By contrast to the GOP bill, the Democratic alternative tax bill provides that the child tax credit be figured before the EITC is taken — allowing all four million of these children to qualify for the credit.

*The GOP Tax Bill Hurts Women Workers by Allowing Them
To Be Classified as Independent Contractors*

A third provision in the GOP tax bill that will be especially harmful to working women and their families is a provision allowing employers to classify millions of their workers as “independent contractors.”

Under the current tax code, there are strict guidelines on what individuals can be classified as “independent contractors.” These guidelines are strict in order to protect American workers and their benefits under state and federal laws. This GOP bill amends the tax code to break down these strict guidelines and provides employers enormous discretion in which workers can be considered “employees” and which workers can be considered “independent contractors.”

Following is the reaction of Secretary of the Treasury Robert Rubin to this GOP provision, in a letter to Rep. Archer, Chairman of the Ways and Means Committee:

“[The provisions] for independent contractor status would permit employers to avoid essential worker protections. At a time when we are trying to expand health and pension coverage, this proposal could lead to widespread shifting of employees to independent contractor status, resulting in loss of worker protections such as pension and health coverage, and consequently wage and hour protections, unemployment insurance benefits and compensation for work-related injuries.”

These punitive GOP provisions would have a particularly negative impact on women -- because women already make up a large portion of the increasing number of Americans in the “contingent workforce,” particularly those considered “independent contractors.”

Allowing employers to reclassify large numbers of workers as “independent contractors” would lead to an even greater number of women to work as “independent contractors” than are required to today. Following is what it would mean to women workers to be reclassified as independent contractors under the GOP bill:

- **Lower Pay** — Women classified as independent contractors have median weekly earnings of \$361 compared to \$410 for women in traditional work arrangements, according to the Bureau of Labor Statistics. And women of color classified as independent contractors make even less.
- **No Health Insurance** — Only 2 percent of women classified as independent contractors have health insurance through their employers -- compared to 55 percent of women in traditional jobs.
- **No Pension** — Only 2 percent of women classified as independent contractors are covered by a pension plan through their employer — compared to 54 percent of women in traditional jobs.
- **No Employer Contributions to Social Security and Medicare** — Workers classified as independent contractors must pay the full amount of these taxes.
- **No Protection Under State and Federal Employment and Labor Laws** — To be covered by state and federal employment and labor laws, a worker has to be classified as an employee and not an independent contractor. Therefore, women classified as independent contractors would have no guarantee of minimum wage and overtime pay, no right to family and medical leave, no protections against sex discrimination and sexual harassment, and no unemployment insurance.

The GOP Tax Bill Penalizes More than Two Million Working Families by Throwing Them into the Alternative Minimum Tax, Simply for Claiming the Child and/or HOPE Credits

Finally, a fourth provision in the GOP tax bill that will be harmful to working women and their families is a provision allowing families to be thrown into the Alternative Minimum Tax by claiming the new \$500-per-child and HOPE tax credits.

In unveiling their tax bill, House Republicans announced with great fanfare to American families that they were going to provide them with a new child tax credit and a new HOPE tax credit. However, the way the GOP tax bill is drafted, many of these families are in for a rude awakening when they actually go to claim these credits. Under the GOP bill, they won't get what Republicans promised because many average families will be thrown into the Alternative Minimum Tax simply by claiming the credits promised them.

The result of being thrown into the Alternative Minimum Tax is that a family loses much of the value of the credits it claims.

The Alternative Minimum Tax (AMT) was designed to ensure that high-income taxpayers could not reduce their income taxes to unreasonably low levels or escape income taxes altogether through the extensive use of tax preferences.

Under current law, middle-class families have generally not been affected by the Alternative Minimum Tax because they have not had enough tax credits and other preferences available to them to be thrown into the AMT.

However, the GOP bill changes this by providing middle-class families — particularly families with two or more children — significant new tax credits that can dramatically lower their tax liability. Without special provisions, these new credits can now throw millions of middle-class families into the AMT for the first time.

Under the GOP bill, the more children a family has and the extent to which the family claims the child care tax credit, the more likely they are to be thrown into the AMT.

To ensure that middle-class families will not be thrown into the AMT by claiming the child tax credit and/or the HOPE credit, the Democratic alternative tax bill contains explicit provisions providing that the new child credit and new HOPE credit will not be treated as tax preferences under the AMT — thereby guaranteeing families the full credits they deserve under the law. The GOP bill should have contained similar provisions.

Here are some examples of how the AMT provisions would operate under the GOP bill.

- A single mother with two children in day care with \$48,350 in gross income would

- lose \$657 of her \$1000 child tax credit because she gets thrown into the AMT;
- A two-earner family with four children and day care expenses with \$65,700 in gross income would lose \$1,982 of their \$2000 child tax credit because they get thrown into the AMT; and
- A two-earner family with three children and day care expenses with \$63,000 in gross income would lose \$780 of their \$1500 child tax credit because they get thrown into the AMT.

Indeed, under the GOP bill, in 2002, two million families would be thrown into the Alternative Minimum Tax because of the child credit alone -- thereby ensuring that they lose part of their child credit. When families thrown into the Alternative Minimum Tax because of the HOPE credit are added in, the number of families thrown into the AMT by the provisions of the GOP bill rise significantly above two million.

In sum, the GOP bill has been drafted in such a way that millions of families that believe that they would be receiving the full \$500-per-child tax credit and the full HOPE credit under the GOP bill would be in for a rude awakening — receiving only a fraction of the credits they have been promised.